

# Market Update

March 2015

## GLOBAL

Global markets continued their volatile ride as investors sought direction amid mixed news and concerns around a rampant US dollar and a slowing Chinese economy. The MSCI World shed 1.81% (USD), dragged lower by Europe (-2.56%) and the US (-1.44%) with Japan withstanding the negative sentiment posting 1.65%.

The U.S. economy grew at 2.2% annualised in Q4 of 2014 which was down significantly from the euphoric 5% of the previous quarter. This news brought an element of realism to the market as the economic numbers coming out of the U.S. have been sending very mixed signals. Short term currency flows in anticipation of an interest rate hike have seen the dollar spurred to all-time highs. This has come at a cost as can be seen from the results from some of the major U.S. companies as the full year reporting season began. Industrial conglomerate United Technologies, Du Pont chemicals, PC giant Microsoft and consumer goods Procter & Gamble have all announced disappointing results and all have cited the rampant dollar as the major cause of a slump in their profits.

It was concerns over dollar strength together with disappointing earnings that saw an end-of-month sell-off in U.S. markets after their having reached new highs in the previous weeks. The earlier bullishness in the markets had been occasioned by strong monthly non-farm payroll numbers which indicated a pick-up in wage growth.

This sentiment was further strengthened by comments from Federal Reserve Chair Janet Yellen at a press conference following the mid-March sitting of the Federal Open Markets Committee which whilst freeing their hand to commence interest rate normalisation dropped the word “patient” from the rhetoric. This was nevertheless construed as being a “dovish” approach and any move on interest rates is likely to be postponed until possibly much later in the year.

Eurozone equities delivered mixed performance over the month with Germany posting 0.31% as measured by the MSCI Germany, buoyed by the European Central Bank (ECB) quantitative easing. The extent of the plan took the markets by surprise with a planned total of Euro 60 billion of bond repurchases per month until at least September 2016. This news sent the Euro weaker versus the dollar, suppressed bond yields and strongly supported equity market gains.

The ECB's move was in response to below target inflation which came in at -0.6 in January, -0.3 in February and again -0.1 in March. However leading indicators showed more robust growth with the flash Purchasing Manager's Index (PMI) coming in at 54.1 in March indicating expansion.

The U.K. experienced a volatile month with the market driven by top-down considerations as investors attempted to guess the next move by the U.S. Fed. Despite a slew of earnings downgrades at the beginning of the year expectations were largely met or bettered during the results season.

Resource companies saw their share prices stabilise along with commodities as the oil price and industrial metals prices stabilised. The situation was further aided by the Peoples Bank of China's March move to reduce its lending and deposit rates and so help kick-start the economy.

The Japanese stockmarket rose strongly in Q1 2015 with the TOPIX Index registering a gain of 10.5%. Market optimism was largely driven by expectations of further QE by the Bank of Japan on the back of weaker economic data. The key inflation gauge showed year-on-year inflation at 0%. Industrial production fell a worse than expected 3.4% in January with retail sales continuing to disappoint.

The Chinese economy continues to lose momentum but equities were up after the People's Bank of China cut the required reserve ratio by 50 basis points in early February as it stepped up its efforts to counter the impact of capital outflows and alleviate tight liquidity conditions. In early March the Central Bank again cut interest rates to help boost flagging growth and eased lending and tax policies to help alleviate a potential slide in property prices. In Hong Kong equity prices gained strongly on the back of the Chinese easing measures as well as on the announcement that a trial programme connecting the stock exchanges of Shenzhen and Hong Kong would soon be launched.

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## DOMESTIC

The South African economy was dominated by the ongoing fiasco at Eskom which is having a major impact on economic development as well as putting substantial pressure on an already weakened Rand.

Minister Nene has projected economic growth for 2015 at 2.0% down from the 2.5% he indicated in October. For 2017 the indication is for 3%. Unfortunately these levels of economic growth project a muddle through economy for South Africa for some time to come.

South Africa is currently facing its worst power crisis since 2008 as Eskom struggles to keep the lights on in Africa's most advanced economy due to ageing and poorly maintained power stations and infrastructure. The utility has implemented load-shedding to avoid a national black-out which would have dire consequences for the economy and would probably see South Africa literally in the dark for a protracted period. The utility has further warned that continued load-shedding is likely to continue for some considerable time.

This is being partly occasioned by the fact that the two new power stations, Medupi and Kasile are years behind in being able to supply power to the national grid. The situation is further compromised by the fact that Eskom has been using peak demand stand-by gas turbine generators to meet current demand. The cost of so doing runs to billions of Rand and as a result Eskom has run out of cash. In order to try and meet this cash flow shortage the government has said it will dispose of "non-strategic" assets to the value of some R20bn to help fund the ailing power utility. Furthermore it has agreed that Eskom

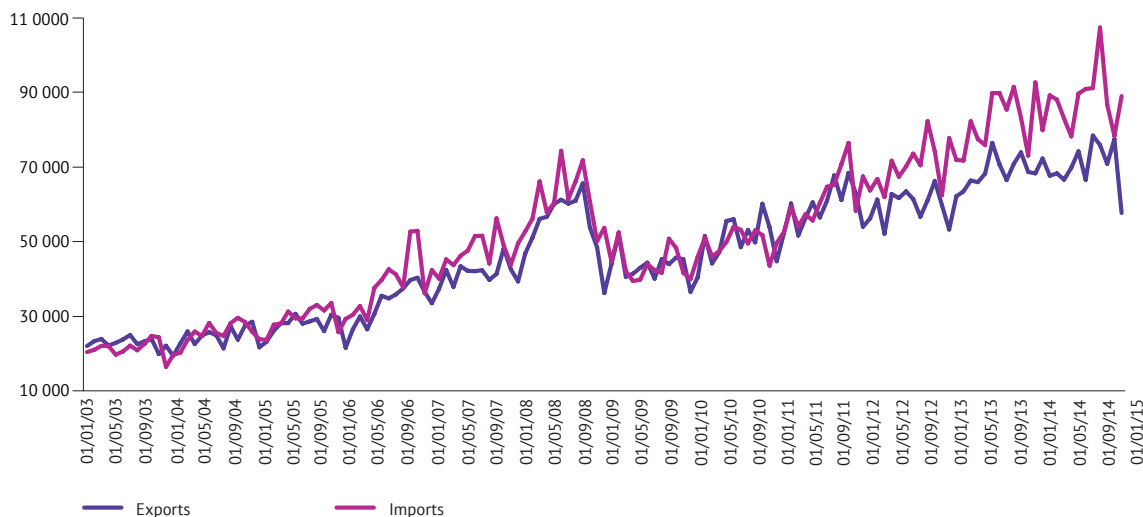
may raise its tariffs in order to try and recoup the amount spent on diesel to feed the gas turbines. In this regard Eskom is requesting a tariff increase of 22.7% in bulk supply made up of an already agreed 12.69% plus an additional 9.58%.

Public Enterprise Minister Lynne Brown told parliament that power outages were costing the economy between \$1.7bn and \$6.8bn a month and that she was concerned about the ability of the current Eskom management to resolve the current crisis. As a consequence CEO Tshediso Matona and three other executives have been suspended as the Board launches a comprehensive and holistic audit into various matters of concern. Minister Brown is concerned about the instability of power plants, the financial liquidity of the utility, the lack of credible information, progress or lack thereof with the build programme and the issue surrounding the pricing of diesel and coal.

South Africa's GDP expanded by an annualised 4.1% quarter/quarter in the last three months of 2014 compared to a revised growth rate of 2.1% for the third quarter. This added 1.3% on an unadjusted basis in the fourth quarter compared to revised growth of 1.6% in the previous three months.

This put full year growth at 1.5% for 2014 which was better than expected but was down on the 2.2% for 2013. South Africa's Consumer Price Inflation came in at 4.4% in January down from 5.3% in December which was welcome news for consumers and was largely attributable to the decline in the oil price. It is very unfortunate that this benefit to consumers has been largely negated by the increase in the fuel levies.

## South Africa: Exports vs Imports (Rbn)



Source: GTC/I-Net

Despite the negativity evident in the economy the JSE/ALSI continued to surprise us all by reaching a new record high during February of 53344.2 points.

S.A.'s trade deficit came in at R8.4bn in February which was a big improvement on the deficit of R24.2bn recorded in January. Imports were R85.33bn versus exports of R76.85bn. So far the combined deficit for 2015 stands at R32.7bn more

than double the figure of R15.49bn for the same period last year. S.A.'s PPI climbed 0.4% on a monthly basis in February after having recorded a decrease of 1.1% in January. The Repo rate was held steady but SARB has indicated that to the extent that Rand weakness flows into inflation they will have no option but to raise interest rates. The integrity of inflation targeting is to be maintained.

### GTC Fund Performances - March 2015

Client portfolios	1Year	*2Year	*3Year	*4Year	*5Year
GTC EB Market Plus - Pension	7.45%	15.27%	15.41%	13.49%	13.68%
GTC EB Market Plus Benchmark	14.12%	16.51%	17.40%	15.46%	14.07%
GTC EB Market Plus - Provident	9.48%	16.35%	16.13%	14.02%	14.10%
GTC EB Market Plus Benchmark	14.12%	16.51%	17.40%	15.46%	14.07%
GTC High Equity Fund - Provident	8.89%	12.82%	13.39%	12.04%	11.22%
GTC High Equity Inflation Target - CPI+5%	8.92%	9.92%	10.23%	10.45%	10.10%
GTC High Equity Fund - Pension	9.10%	12.81%	13.23%	11.93%	11.29%
GTC High Equity Inflation Target - CPI+5%	8.92%	9.92%	10.23%	10.45%	10.10%
GTC Moderate Fund - Provident	7.73%	11.00%	11.63%	10.48%	10.19%
GTC Moderate Inflation Target - CPI+3%	6.92%	7.92%	8.23%	8.45%	8.10%
GTC Moderate Fund - Pension	7.89%	10.88%	11.61%	10.40%	10.11%
GTC Moderate Inflation Target - CPI+3%	6.92%	7.92%	8.23%	8.45%	8.10%
GTC Conservative Fund - Provident	6.93%	7.13%	8.27%	7.40%	7.22%
GTC Conservative Inflation Target - CPI+1%	4.91%	5.91%	6.23%	6.44%	6.10%
GTC Conservative Fund - Pension	6.72%	7.49%	8.56%	7.91%	7.61%
GTC Conservative Inflation Target - CPI+1%	4.91%	5.91%	6.23%	6.44%	6.10%
FTSE/JSE All Share Index (ALSI)^	10.87%	16.19%	17.67%	14.62%	14.38%
FTSE/JSE Shareholder Weighted Index (SWIX)^	16.00%	19.28%	19.60%	17.12%	16.42%
BEASA All Bond Index (ALBI)^	10.78%	4.76%	7.35%	8.37%	8.04%
Cash (SteFi)^	4.55%	4.12%	4.03%	4.05%	4.23%
MSCI World Index (R)^	17.17%	24.23%	25.95%	22.06%	17.36%

\* Annualised

^Benchmark returns include 1,5% fees

GTC performances shown are net of all fees

The **GTC Market Plus Fund** has benefited from its equity market exposure, both domestically as well as offshore. Within our manager blend, exposure to attractive and depressed materials exposure has detracted in the short term.

The **GTC High Equity Fund** (previously Aggressive) is ahead of its inflation target over all periods. Equity markets continue to be the main driver for fund performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

The **GTC Moderate Fund** is ahead of its inflation target over all periods. Equity markets remain the key driver of performance.

The **GTC Conservative Fund** is ahead of its inflation target over all periods. Equity markets remain the key driver of performance.

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## Further information

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